

**Illinois Department of Revenue  
Regulations**

<b>Title 86 Part 130 Section 130.805 What Records Constitute Minimum Requirement</b>
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**TITLE 86: REVENUE  
PART 130  
RETAILERS' OCCUPATION TAX**

**Section 130.805 What Records Constitute Minimum Requirement**

- a) In General. A taxpayer shall maintain all records that are necessary to a determination of the correct tax liability under the Act. All required records must be made available on request by the Department. Where a taxpayer's business consists exclusively of the sale of tangible personal property at retail, the following records will be deemed by the Department to constitute a minimum for the purposes of the Act:
  - 1) Cash register tapes and other data which will provide a daily record of the gross amount of sales.
  - 2) A record of the amount of merchandise purchased. To fulfill this requirement, copies of all vendors' invoices and taxpayers' copies of purchase orders must be retained serially and in sequence as to date.
  - 3) A true and complete inventory of the value of stock on hand taken at least once each year.
- b) Records prepared by Automated Data Processing Systems (ADP). When an ADP tax accounting system is used to maintain all or part of a taxpayer's accounting or financial records, such ADP system must include a method of producing legible and readable records which will provide the necessary information for verifying tax liability. If a taxpayer retains records required to be retained under Section 130.801 of this Part, in both machine-sensible and hard-copy formats, the taxpayer shall make the records available to the Department in machine-sensible format upon request of the Department in accordance with subsection (b)(5) of this Section. ADP accounting systems encompass all types of data processing systems including, but not limited to, mainframe computer systems, stand-alone or networked microcomputer systems, Database Management Systems (DBMS) and systems using Electronic Data Interchange (EDI) technology.
  - 1) Definitions
    - A) "Database Management System" or "DBMS" means a software system that creates, controls, relates, retrieves and provides accessibility to data stored in a database.
    - B) "Electronic Data Interchange" or "EDI technology" means the computer-to-computer exchange of business transactions in a standardized structured electronic format.

- C) "Machine-sensible record" means a collection of related information in an electronic format. Machine-sensible records do not include hard-copy records that are created or recorded on paper or stored in or by an imaging system such as microfilm, microfiche or storage-only imaging systems.
- D) "Storage-only imaging systems" means a system of computer hardware and software that provides for the storage, retention and retrieval of documents originally created on paper. It does not include any system, or part of a system, that manipulates or processes any information or data contained on the document in any manner other than to reproduce the document in hard-copy or as an optical image.
- E) "Hard-copy" means any documents, records, reports or other data printed on paper.

## 2) Recordkeeping Requirements - Machine-Sensible Records

### A) General Requirements

- i) Machine-sensible records used to establish tax compliance shall be retained by the taxpayer. The retained records shall provide sufficient information to establish matters required to be shown by a taxpayer in any tax or information returns. The machine-sensible records shall contain sufficient transaction-level detail information so that the details and the source documents underlying the machine-sensible records can be identified and made available to the Department upon request.
- ii) The retained records should reconcile to the books and to the tax return by establishing the relationship (e.g., the audit trail) between the total of the amounts in the retained records to the totals in the books and to the tax return.
- iii) The retained records must be capable of being processed. For purposes of this Section, "capable of being processed" means to be able to retrieve, manipulate, print hard-copy, or produce other output. This term does not encompass any requirement that the program or system that created the computer data be available to process the data unless the process is essential to a tax-related computation.
- iv) Taxpayers are not required to construct machine-sensible records other than those created in the ordinary course of business. A taxpayer who does not create the electronic equivalent of a traditional paper document in the ordinary course of business is not required to construct such a record for tax purposes.
- v) All records required to be retained under this Section shall be

preserved unless the Department has provided in writing that the records are no longer required as explained in Section 130.825 of this Part.

B) Electronic Data Interchange

- i) Where a taxpayer uses electronic data interchange processes and technology, the level of record detail, in combination with other records related to the transaction, must be equivalent to the level of detail contained in an acceptable paper record. For example, the retained records should contain such information as vendor name, invoice date, product description, quantity purchased, price, amount of tax, indication of tax status, shipping detail, etc. Codes may be used to identify some or all of the data elements, provided that the taxpayer provides a method which allows the Department to interpret the coded information.
- ii) The taxpayer may capture the information necessary to satisfy subsection (b)(2)(B)(i) at any level within the accounting system and need not retain the original EDI transaction records provided the audit trail, authenticity and integrity of the retained records can be established.

For example, a taxpayer using electronic data interchange technology receives electronic invoices from its suppliers. The taxpayer decides to retain the invoice data from completed and verified EDI transactions in its accounts payable system rather than to retain the EDI transactions themselves. Since neither the EDI transaction nor the accounts payable system captures information from the invoice pertaining to product description and vendor name (i.e., they contain only codes for that information), the taxpayer also retains other records, such as its vendor master file and product code description lists and makes them available to the Department. In this example, the taxpayer need not retain its EDI transaction for tax purposes.

- C) Electronic Data Processing Systems Requirements. The requirements for an electronic data processing accounting system are similar to that of a manual accounting system, in that an adequately designed accounting system should incorporate methods and records that will satisfy the requirements of this Section.

3) Recordkeeping Requirements - ADP Systems Documentation

- A) Upon the request of the Department, the taxpayer shall provide a description of the business process that created the retained records. Such description shall include the relationship between the records and the tax documents prepared by the taxpayer and the measures employed to ensure the authenticity and integrity of the records.

- B) The taxpayer shall be capable of demonstrating:
  - i) the functions being performed as they relate to the flow of data through the system;
  - ii) the internal controls used to ensure accurate and reliable processing; and
  - iii) the internal controls used to prevent the unauthorized addition, alteration or deletion of retained records.
- C) The following specific documentation is required for machine-sensible records pursuant to this Section:
  - i) record formats and layouts;
  - ii) field definitions (including the meaning of all "codes" used to represent information);
  - iii) file descriptions (e.g., data set name); and
  - iv) detailed charts of accounts and account descriptions.
- D) Any changes to the items specified in subsections (b)(3)(B) and (C) above, together with their effective dates, shall be documented and made available to the Department upon request.

4) Machine-Sensible Records Maintenance Requirements

- A) The establishment of records management practices is solely at the discretion of the taxpayer, who ultimately bears the burden of producing records capable of being processed at the time of an examination by the Department. The Department recommends but does not require that taxpayers refer to the National Archives and Record Administration's (NARA) standards for guidance on the maintenance and storage of electronic records.
- B) In establishing records management practices, taxpayers should consider, for example, the labeling of records, the security of the storage environment, the creation of back-up copies and their storage location and the use of periodic testing to confirm the continued integrity of the records.
- C) The NARA standards may be found at 36 CFR 1234, July 1, 1995 edition.
- D) The taxpayer's computer hardware or software shall accommodate the processing of or the extraction and conversion of retained machine-sensible records.

5) Access to Machine-Sensible Records. The manner in which the Department is

provided access to machine-sensible records as required in subsection (b) of this Section and Section 130.801(d) of this Part may be satisfied through a variety of means that shall take into account a taxpayer's facts and circumstances through consultation with the taxpayer. Such access will be provided in one or more of the following manners:

- A) A taxpayer may provide the Department copies of the machine-sensible records for use on the Department's equipment;
- B) The taxpayer may arrange to provide the Department with the hardware, software and personnel resources necessary to access and process the machine-sensible records;
- C) The taxpayer may arrange for a third party to provide the hardware, software and personnel resources necessary to access and process the machine-sensible records;
- D) The taxpayer may convert machine-sensible records to a standard record format specified by the Department on a magnetic medium that is agreed to by the Department. This may include conversion to a different medium (e.g., from mainframe files to microcomputer diskette). These records may be processed on the Department's equipment or at the taxpayer's location;
- E) The taxpayer and the Department may agree on other means of providing access to the machine-sensible records.

6) Taxpayer Responsibility and Discretionary Authority

- A) In discharging their responsibilities under the Act, taxpayers are empowered to determine which of their machine-sensible records must be retained and which records may be discarded. These determinations require a consideration of all the facts and circumstances, including whether duplicated or redundant records exist.
- B) In general, taxpayers should retain the machine-sensible records that are the most direct evidence of the transactions, and have discretion to discard duplicated records and redundant information. In exercising this discretion, the taxpayer should generally retain those records that best facilitate the retrieval and processing of the data during an audit. For example, departmental records stored in departmental data files that are duplicated in a central system could be discarded provided that all required information in the departmental records is contained in the central system and the requirements of this Section are met. Similarly, daily or weekly data files could be discarded provided that appropriate monthly, quarterly or annual data files with the ability to access appropriate transaction-level records are available.
- C) In conjunction with meeting the requirements of this Section, a taxpayer may create files solely for the use of the Department. For example, if a

database management system is used, it is consistent with this Section for the taxpayer to create and retain a file that contains the transaction-level detail from the database management system and that meets the requirements of the Section. The taxpayer should document the process that created the separate file to show the relationship between that file and the original records.

- D) A taxpayer may contract with a third party to provide custodial or management services of the records. Such a contract shall not relieve the taxpayer of its responsibilities under this Section.
- c) **Alternative Storage Media.** For purposes of storage and retention, taxpayers may convert hard-copy documents received or produced in the normal course of business and required to be retained under this Section to microfilm, microfiche or other storage-only imaging systems and may discard the original hard-copy documents, provided the conditions of this Section are met. These records are not a substitute for machine-sensible records (e.g., magnetic tapes, magnetic cartridges or magnetic disks) described in subsection (b) of this Section. Documents which may be stored on these media include, but are not limited to, general books of account, journals, voucher registers, general and subsidiary ledgers and supporting records of details, such as sales invoices, purchase invoices, exemption certificates and credit memoranda. Microfilm, microfiche and other storage-only imaging systems shall meet the following requirements:
- 1) Documentation establishing the procedures for converting the hard-copy documents to microfilm, microfiche or other storage-only imaging systems must be maintained and made available on request. Such documentation shall, at a minimum, contain sufficient description to allow an original document to be followed through the conversion system as well as internal procedures established for inspection and quality assurance.
  - 2) Procedures must be established for the effective identification, processing, storage and preservation of the stored documents and for making them available for the periods they are required to be retained under the Retailers' Occupation Tax Act [35 ILCS 120].
  - 3) All data stored on microfilm, microfiche or other storage-only imaging systems must be maintained and arranged in a manner that permits the location of any particular record.
  - 4) Microfiche, microfilm or other storage-only imaging systems records must be indexed, cross-referenced and labeled to show beginning and ending numbers or beginning and ending alphabetical listing of documents included, and must be systematically filed to permit the immediate location of any particular record. A posting reference must be on each document and a control log or catalog of such documents must be maintained.
  - 5) Upon request of the Department, a taxpayer must provide facilities and equipment, in good working order, for reading, locating and reproducing any documents maintained on microfilm, microfiche or other storage-only imaging

systems.

- 6) When displayed on such equipment or reproduced on paper, the documents must exhibit a high degree of legibility and readability. For this purpose, legibility is defined as the quality of a letter or numeral that enables the observer to identify it positively and quickly to the exclusion of all other letters or numerals. Readability is defined as the quality of a group of letters or numerals being recognized as words or complete numbers.
  - 7) There must be no substantial evidence that the microfilm, microfiche or other storage-only imaging systems lack authenticity or integrity.
- d) Effect on Hard-Copy Recordkeeping Requirements
- 1) Except as otherwise provided, the provisions of this Section do not relieve taxpayers of the responsibility to retain hard-copy records that are created or received in the ordinary course of business as required by existing law and regulations. Hard-copy records may be retained on a recordkeeping medium provided in subsection (c).
  - 2) If hard-copy records are not produced or received or required to be produced or received in the ordinary course of transacting business (i.e., when the taxpayer uses electronic data interchange technology), such hard-copy records need not be created.
  - 3) Unless hard-copy records are required to be provided or received, hard-copy records generated at the time of a transaction need not be retained if all the details relating to the transaction are subsequently received by the taxpayer in an EDI transaction and are retained by the taxpayer in accordance with this Section.
  - 4) Hard-copy records generated at the time of a transaction using a credit or debit card must be retained unless all the details necessary to determine correct tax liability relating to the transaction are subsequently received and retained by the taxpayer in accordance with this Section. Such details include, but may not be limited to, those listed in subsection (b)(2)(B).
  - 5) Computer printouts that are created for validation, control or other temporary purposes need not be retained.
  - 6) Nothing in this Section shall prevent the Department from requesting hard-copy printouts of retained machine-sensible records. These requests may be made either at the time of an examination or in conjunction with the testing described in Section 130.825 of this Part.

(Source: Amended at 24 Ill. Reg. 15104, effective October 2, 2000)